

TEXAS HIGHER EDUCATION COORDINATING BOARD

Agency Operations Committee

1200 EAST ANDERSON LANE, BOARD ROOM 1.170
AUSTIN, TEXAS
2:00 P.M., January 24, 2018

*John T. Steen, Jr.,
CHAIR
Ricky A. Raven
Vice Chair
S. Javaid Anwar
Fred Farias III, O.D.
Stuart W. Stedman
Andrias R. "Annie" Jones
Student Representative,
Ex-Officio
Bobby Jenkins, Jr., Ex-
Officio*

PUBLIC TESTIMONY: The presiding chair shall designate whether public testimony will be taken at the beginning of the meeting, at the time the related item is taken up by the Board after staff has presented the item, or any other time. For procedures on testifying, please go to http://www.theccb.state.tx.us/public_testimony.

I. Welcome and Committee Chair's Opening Remarks

II. Consideration of Approval of the Minutes from October 25, 2017, Committee Meeting

III. Public Testimony on agenda items relating to the Agency Operations Committee

IV. Agency Operations

- A. Report on grants and contracts, including those exceeding \$1 million
- B. Update on the key initiatives recommended by NTT Data regarding the Agency Cyber Security Framework

V. Finance

- A. Review of the Year to Date Fiscal Year 2018 Financial Report to the Board

VI. Compliance Monitoring

- A. Update on Compliance Monitoring Reports and Activities

VII. Internal Audit

- A. Consideration of approval of the updated Internal Audit Charter
- B. Update on Internal Audit Reports and Activities

VIII. Executive Session

A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to discuss and receive its attorney's advice on legal matters relating to Agenda Item VII-B(4)

The Texas Higher Education Coordinating Board Agency Operations Committee may convene in Executive Session at any point in this meeting, concerning any item listed in the agenda or to seek or to receive its attorney's advice on legal matters related thereto, pursuant to Texas Government Code Ann. 551.071.

Note: The Board will not consider or act upon any item before the Agency Operations Committee at this meeting. This meeting is not a regular meeting of the full Board. Because the number of Board members who may attend the committee meeting may create a quorum of the full Board, the meeting of the Agency Operations Committee is also being posted as a meeting of the full Board.

Texas Penal Code Section 46.035(c) states: "A license holder commits an offense if the license holder intentionally, knowingly, or recklessly carries a handgun under the authority of Subchapter H, Chapter 411, Government Code, regardless of whether the handgun is concealed or carried in a shoulder or belt holster, in the room or rooms where a meeting of a governmental entity is held and if the meeting is an open meeting subject to Chapter 551, Government Code, and the entity provided notice as required by that chapter." Thus, no person can carry a handgun and enter the room or rooms where a meeting of the THECB is held if the meeting is an open meeting subject to Chapter 551, Government Code.

Please Note that this governmental meeting is, in the opinion of counsel representing THECB, an open meeting subject to Chapter 551, Government Code and THECB is providing notice of this meeting as required by Chapter 551. In addition, **please note** that the written communication required by Texas Penal Code Sections 30.06 and 30.07, prohibiting both concealed and open carry of handguns by Government Code Chapter 411 licensees, will be posted at the entrances to this governmental meeting.

Committee on Agency Operations

AGENDA ITEM I

Welcome and Committee Chair's Opening Remarks

Mr. John Steen, Chair of the Committee on Agency Operations, will provide the Committee an overview of the items on the agenda.

Committee on Agency Operations

AGENDA ITEM II

Consideration of Approval of the Minutes from October 25, 2017, Committee meeting

RECOMMENDATION: Approval

DRAFT

TEXAS HIGHER EDUCATION COORDINATING BOARD Agency Operations Committee

Wednesday, October 25, 2017
Board Room, 1st Floor
Room 1.170
2:00 p.m.
1200 East Anderson Lane, Austin, Texas

The Committee on Agency Operations convened at 2:00 p.m. on October 25, 2017, with the following members present: John Steen; presiding; Javaid Anwar; Fred Farias; Stuart Stedman; and Annie Jones (Ex-Officio)

Members absent were: Ricky Raven

AGENDA ITEM	ACTION
I. Welcome and Committee Chair's Opening Remarks	Chair John Steen called the meeting of the Agency Operations Committee to order.
II. Consideration of Approval of the Minutes from July 26, 2017, Committee Meeting	On a motion by Mr. Stedman, seconded by Mr. Anwar, the Committee approved the July 26, 2017, Agency Operations Committee meeting minutes.
III. Public Testimony on Agenda Items Relating to the Committee on Agency Operations	No action required.
IV. Agency Operations	
A. Consideration of adopting the staff's recommendation to the Committee relating to an amendment to the Board Operating Policies and Procedures	On a motion by Mr. Anwar, seconded by Dr. Farias, the Committee approved the amendment to the Board Operating Policies and Procedures.
B. Consideration of adopting the Commissioner's recommendation to the Committee relating to proposed amendments to Chapter 25, Subchapter A, Section 25.4 of Board rules concerning the Optional Retirement Program (<i>Senate Bill 1954, 85th Texas Legislature, Regular Session</i>)	On a motion by Mr. Stedman, seconded by Mr. Anwar, the Committee approved the proposed amendments to Chapter 25, Subchapter A, Section 25.4 concerning the Optional Retirement Program.

AGENDA ITEM	ACTION
C. Report on grants and contracts, including those exceeding \$1 million	No action required.
D. Update on the key initiatives recommended by NTT Data regarding the Agency Cyber Security Framework	Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services, and Mr. John House, Information Security Officer, presented an update to the Board on the progress made on implementing the key initiatives recommended by NTT Data. This item did not require any action.
V. Finance	
A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO and Linda Battles, Deputy Commissioner for Agency Operations and Communications/COO presented this item to the Committee. This item did not require any action.
B. Consideration of the adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for the selection of a vendor for postage services relating to the student loan program	On a motion by Mr. Stedman, seconded by Dr. Farias, the Committee approved the issuance of a Request for Proposals (RFP) for the selection of a vendor for postage services relating to the student loan program.
C. Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for Financial Advisor for the agency's student loan program	On a motion by Dr. Farias, seconded by Mr. Anwar, the Committee approved the issuance of a Request for Proposals (RFP) for selection of a vendor for Financial Advisor for the agency's student loan program.
D. Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for bond counsel relating to the performance of legal services for the agency for the student loan bond program	On a motion by Dr. Farias, seconded by Mr. Anwar, the Committee approved the issuance of a Request for Proposals (RFP) for selection of a vendor for bond counsel relating to the performance of legal services for the agency for the student loan bond program.
VI. Internal Audit	
A. Discussion regarding the pros and cons of auditor rotation for external audit of agency-wide financial statements	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.

AGENDA ITEM	ACTION
B. Update on Internal Audit Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
VII. Compliance Monitoring	
A. Update on Compliance Monitoring Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.

With no further business, on a motion by Mr. Anwar, seconded by Dr. Farias, the meeting adjourned at approximately 3:25 p.m.

Committee on Agency Operations

AGENDA ITEM III

Public Testimony on agenda items relating to the Agency Operations Committee

RECOMMENDATION: No action required

Background Information:

PUBLIC TESTIMONY: The presiding chair shall designate whether public testimony will be taken at the beginning of the meeting, at the time the related item is taken up by the Board after staff has presented the item, or any other time as determined by the presiding chair.

Committee on Agency Operations

AGENDA ITEM IV-A

Report on grants and contracts, including those exceeding \$1 million

RECOMMENDATION: No action required

Background Information:

Title 19 Texas Administrative Code, Rule 1.16(j) establishes that any contract for the purchase of goods or services that exceeds \$1 million may be entered into only if the contract is approved and signed by the Commissioner, to whom the Board, by virtue of this rule, delegates such approval and signature authority. In addition to the Board receiving a quarterly report on *Contacts Executed by the Agency in Accordance with Board Rule 1.16*, the Coordinating Board staff would like to also provide the Board a quarterly report highlighting and listing all grants and contracts exceeding \$1 million.

Bill Franz, General Counsel will be available for questions.

Committee on Agency Operations

Agenda Item IV-B

Update on the key initiatives recommended by NTT Data regarding the Agency Cyber Security Framework

RECOMMENDATION: No action required

Background Information:

Senate Bill 1134, 83rd Texas Legislature, required the Texas Department of Information Resources (DIR) develop strategies and a framework for the securing of cyber infrastructure by state agencies. DIR subsequently worked with a committee of agency representatives and private sector reviewers to develop a framework and template that can help agencies comply with requirements.

In 2016 DIR contracted with NTT Data, Inc. to conduct an assessment of the alignment of state agencies' cybersecurity infrastructure with the Texas Cybersecurity Framework. NTT Data, Inc. consultants performed an assessment of the THECB's cybersecurity infrastructure between April and June, 2017, and presented their findings and recommendations to the Board in a Special Called Board meeting on June 28th, 2017.

Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services, and Mr. John House, Information Security Officer, will update the Board on the progress made so far on the key initiatives recommended by NTT Data and will be available to answer questions.

Committee on Agency Operations

AGENDA ITEM V-A

Review of the Year to Date Fiscal Year 2018 Financial Report to the Board

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

During each quarterly committee meeting, the Finance Department provides a financial report summarizing the agency's fiscal year to date budget and financial activities. This is a financial management report that is developed for both agency and board use. Staff may revise this report periodically to present the most relevant information.

Key points:

- This report reflects data for the period of 9/1/17 through 11/31/17 for the 2018 appropriation year.
- This is the first report for fiscal year 2018, the first year of the 2018/2019 biennium.
- The report is distributed to agency executive management on a monthly basis.
- Report overview:
 - Three months of the 2018 fiscal year are reflected in this report. Expenditures and encumbrances will continue to increase as the year progresses. Many of the programs have contracts that require Board or committee approval.
 - The Coordinating Board sold Private Activity General Obligation bonds in December, 2107. This was a result of the Board approved bond resolution from the July 27, 2017 board meeting. The results of the sale are as follows: The total proceeds were \$170.2M (\$155.7M in principal and \$14.5M in premium). The True Interest Cost was 3.11% and average coupon rate was 3.87% vs. the previous 2016 series of 4.11%/5.27% respectively. The estimated proceeds of this bond sale are currently reflected in the Loan Fund cash balances in the loan program section of this report.
 - Student loan demand for the current academic year is 11% lower than the previous year. This is mainly related to the interest rate increase from the 2016 bonds.
 - One additional FTE was added to the OAG Collection Team staff for 2018. The goal is to increase the focus and cash collections from defaulted loans.
 - Since it is still early in the fiscal year, there are no notable items to discuss relating to specific trustee programs.

- In the previous meeting, a review was provided to discuss the connection between the agency strategic five year plan, the legislative appropriation request and the agency operating budget. A walk through of the contents of each section of this report will be provided to continue the previous discussion.

Ken Martin, Assistant Commissioner for Financial Services/CFO will present this item to the committee.

Committee on Agency Operations

AGENDA ITEM VI-A

Update on Compliance Monitoring Reports and Activities

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

Update on Compliance Monitoring Reports

The Compliance Monitoring team completed eight projects during the reporting period since the October 2017 Agency Operations Committee meeting. The final reports are attached.

Formula Funding Engagements Completed

A Follow Up Audit of Formula Funding at North Central Texas College (no findings)

A Compliance Desk Review of Formula Funding at El Paso Community College (no findings)

A Compliance Monitoring Desk Review of Formula Funding at Cisco College (one finding)

A Compliance Audit of Formula Funding at The University of Texas Southwestern Medical Center (no findings)

A Compliance Audit of Formula Funding at Northeast Lakeview College (no findings)

A Follow Up Audit of Formula Funding at South Plains College (no findings)

Financial Aid Engagements Completed

A Second Follow Up Audit of TEXAS Grant at Clarendon College (no findings)

A Follow Up Audit of the Tuition Equalization Grant at East Texas Baptist University (no findings)

Projects In Progress	Stage of Project
Tarleton State University – TEXAS Grant Follow Up	Fieldwork
Kilgore College – Formula Funding	Fieldwork
Texas Southmost College – TEXAS Grant Follow Up	Planning
Texas State Technical College – Waco – TEXAS Grant Follow Up	Planning
Del Mar College – Formula Funding	Planning
Doctor's Hospital at Renaissance – Graduate Medical Education	Planning

Other Compliance Monitoring Activities

- Prepared FY 2017 Compliance Performance Measures
- Hired new Compliance Monitoring Specialist

The final reports are attached. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee



TEXAS HIGHER EDUCATION COORDINATING BOARD

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November 30, 2017

Dr. Brent Wallace, President
North Central Texas College
1525 W. California St.
Gainesville, Texas 76240

Dear Dr. Wallace:

North Central Texas College implemented the recommendation in our prior report *A Compliance Monitoring Audit of Formula Funding at North Central Texas College*, issued March 6, 2017.

Management has implemented the audit recommendation by:

- Capturing and retaining student information system audit logs that reflect change history for the critical data used for formula funding.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings, if any, based on the audit objectives.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund Paredes, Commissioner of Higher Education

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Dr. Julie Eklund, Assistant Commissioner, Strategic Planning and Funding

North Central Texas College

Ms. Melinda Carroll, Senior Director of Enrollment Management/Registrar

Ms. Karla Metzler, Board Chair

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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November 30, 2017

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Dr. William Serrata, President
El Paso Community College
9050 Viscount Blvd.
El Paso, TX 79925

RE: Desk Review of Formula Funding at El Paso Community College

Dear Dr. Serrata:

El Paso Community College (EPCC) complied with relevant Coordinating Board rules and regulations for enrollment data used for formula funding and with Texas Administrative Code (TAC) Section 13, in the areas of contact hours eligibility, tuition payments, and enrollments.

Summary

Our review included tests of relevant enrollment data reported and certified by EPCC for accuracy and completeness in accordance with TAC Section 13. Our desk review focused on the following enrollment data and time periods:

- Contact Hours and Enrollment for CBM004 (Class Report) during summer 2017 and spring 2017; and
- Contact Hours and Enrollment for CBM00C (Continuing Education Class Report) during summer 2017 and spring 2017.

Our work included procedures to verify:

- Reported contact hours were eligible for formula funding; and
- Reported enrollment was eligible for formula funding.

The cooperation of your staff during this review is greatly appreciated. If you have any questions or comments on the conduct of this review, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communication/COO

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

El Paso Community College

Dr. Carol Kay, Director Institutional Research

Mr. Art Fierro, Chair of the Board

Texas Council of Public University Presidents and Chancellors

Dr. Rissa Potter, Executive Director

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November 13, 2017

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Dr. Thad Anglin, President
Cisco College
101 College Heights
Cisco, TX 76437

Dear Dr. Anglin,

I am attaching the final report on *A Compliance Monitoring Desk Review of Formula Funding at Cisco College*, Report No. THECB CM-FF-18-007. There was one finding related to information technology controls resulting from this engagement.

Summary

Information security controls over student enrollment information at Cisco College (CC) require improvement. Audit trails over key enrollment data such as class meeting days and times must be established to ensure the reliability and integrity of data used for formula funding decision making purposes. Therefore, our original review objectives, including a determination of the accuracy of contact hours reported by CC, were unable to be met. A follow up audit will be performed to evaluate CC's information security controls as a basis for future base period assessment of the accuracy of contact hours reported for formula funding purposes.

This Compliance Monitoring report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, in January 2018.

The cooperation of your staff during this review is greatly appreciated. If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

Detailed Observation, Recommendation and Management's Response

1. Information technology processes and controls over student information system enrollment data should be strengthened.

Information technology processes and controls over student information system enrollment data should be strengthened. Although Cisco College has policies and procedures in place to limit access to information systems, the student information system does not provide audit logs or change history for critical formula funding data, including:

- Credit hours
- Lab hours
- Lab contact hours
- Instruction mode
- Meeting times
- Lecture hours
- Lecture contact hours
- Type of Instruction
- Meeting days
- Instructor of record

The lack of audit logs or change history limits the ability to rely upon the integrity of the data.

FERPA 34 CFR 99.31(a)(1)(ii) requires that "An educational agency or institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests." Security standards (TAC 202) established by the Department of Information Resources (DIR) for institutions of higher education are also a good source of information to strengthen the information technology control environment.

Recommendation:

Capture and retain student information system audit logs or change history for the critical data used for formula funding.

Management Response:

On November 2, 2017, Cisco College implemented a system audit log that is now tracking all user activity in the course file. The course file contains all data points relative to formula funding.

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communication

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Cisco College

Ms. Shirley Dove, Director of Enrollment Services/Registrar

Mr. Brad Kimbrough, Chairman, Board of Regents

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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October 11, 2017

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Dr. Daniel K. Podolsky, President
The University of Texas Southwestern Medical Center
5323 Harry Hines Blvd.
Dallas, TX 75390-9096

Dear Dr. Podolsky,

I am attaching the final report on *A Compliance Audit of Formula Funding at The University of Texas Southwestern Medical Center*, Report No. THECB-FF-18-001.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on January 2018.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

The University of Texas Southwestern Medical Center (UTSWMC) complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Education Code Section 61.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the audit objectives.

Reporting of Formula Funding Enrollment Information

(CBM001 Student Report)

- No issues noted.

Audit Scope, Objective, and Methodology

Our audit included tests of enrollment data reported and certified by UTSWMC. Our audit focused on the following enrollment data and time periods:

- CBM001 (Student Report) – Summer semester 2016, Fall semester 2016, Spring semester 2017

Our work included procedures to verify:

- Reported semester credit hours were eligible for formula funding;
- Student tuition payment was received in accordance with requirements.

The audit methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing other tests of controls necessary to achieve the objectives of the audit. THECB used random sampling to determine the extent to which UTSWMC accurately reported semester credit hour data.

Background

The Texas Education Code 61.059(b) – directs the Board to “devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education.”

The funding formulas are allocations; institutions of higher education have the authority to spend funds appropriated through the formulas in the manner deemed most appropriate; the formula models include enrollment as a major driver; and not all appropriations are made through the formulas.

UTSWMC received \$196 million of formula funding for the FY 2016-2017 biennium based on its percentage of weighted semester credit hours.

Texas Administrative Code §1.13 (b)(2) states, "The purpose of the Board's risk assessment process and compliance methodologies is to maximize the effectiveness of monitoring funds allocated by the Board and data reported to the Board. The agency-wide, risk-based compliance monitoring function is established for... (B) data reported by institutions of higher education to the Board and used by the Board for funding or policymaking decisions, including data used for formula funding allocations, to ensure the data are accurately and consistently reported."

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

The University of Texas Southwestern Medical Center

Dr. Greg Fitz, M.D., Executive Vice President for Academic Affairs and Provost

Dr. Charles Ginsburg, M.D., Vice Provost and Senior Associate Dean for Education

Mr. James Drake, Assistant Vice President, Office of Academic Planning and
Assessment

Ms. Valla Wilson, Associate Vice President, Office of Internal Audit

Ms. Shannon L. Williams, Director of Enrollment Services

The University of Texas System

Mr. Bill McRaven, Chancellor

Mr. Paul L. Foster, Chairman, Board of Regents

Mr. J. Michael Peppers, Chief Audit Executive

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November 30, 2017

Dr. Veronica Garcia, President
Northeast Lakeview College
1201 Kitty Hawk Road
Universal City, Texas 78148

Dear Dr. Garcia,

I am attaching the final report on *A Compliance Audit of Formula Funding at Northeast Lakeview College*, Report No. THECB-FF-18-005. There were no findings resulting from this engagement.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, in January 2018.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

Northeast Lakeview College (NLC) complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Education Code Section 61.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the audit objectives.

We reviewed the following areas:

Reported Semester Credit Hours Were Eligible for Formula Funding

No reportable findings were noted.

Student Tuition Payment was received in Accordance with Requirements

No reportable findings were noted.

Reported Enrollment Was Eligible for Formula Funding

No reportable findings were noted.

Instructors of Record Met Applicable Requirements

No reportable findings were noted.

Audit Scope, Objective, and Methodology

Our audit included tests of enrollment data reported and certified by Northeast Lakeview College. Our audit focused on the following enrollment data and time periods:

- CBM001 (Student Report) – Summer semester 2016, Fall semester 2016, Spring semester 2017; and
- CBM004 (Class Report) – Summer semester 2016, Fall semester 2016, Spring semester 2017.

Our work included procedures to verify:

- Reported semester credit hours were eligible for formula funding;
- Student tuition payment was received in accordance with requirements;
- Reported enrollment was eligible for formula funding; and
- Evidence of academic credentials were maintained to support required instructor qualifications.

The audit methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing other tests of controls necessary to achieve the objectives of the audit. THECB used random sampling to determine the extent to which NLC accurately reported semester credit hour data.

Background

Fifty public community college districts receive state appropriations based on their student enrollment data. These institutions are governed by locally elected boards that have the authority to levy property taxes in their districts. The state appropriations the colleges receive are used to fund administrative and instructional (education and general) services for post-secondary academic and vocational/technical education.

State financing of higher education programs for public community colleges is provided from the State's General Revenue Fund. The THECB and the Comptroller of Public Accounts distributes these appropriations to colleges based on allocations and performance measures. Each college submits enrollment reports (CBM Reports) to the THECB to document the number of contact hours taught by the college in each semester. The formula for state funding involves multiplying the base period contact hours submitted by colleges by the applicable funding rates.

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist (Lead Auditor)
Mr. David Mahoney, Compliance Specialist
Ms. Carol Conner, Compliance Specialist

cc:

**THECB
Board Members****Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education
Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO
Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner

Alamo Colleges District

Dr. Yvonne Katz, Chair, Board of Trustees
Dr. Federico Zaragoza, Vice Chancellor of Economic and Workforce Development
Dr. Tom Cleary, Vice Chancellor for Planning, Performance and Information Systems
Dr. Kimberly Sanders, District Director of Enterprise Reporting
Mr. Bill Wullenjohn, District Director of Internal Audit

Texas Council of Public University Presidents and Chancellors

Dr. Rissa Potter, Executive Director

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Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine, Director



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

November 2, 2017

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VICE CHAIR

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S. Javaid Anwar
Fred Farias III, O.D.
Ricky A. Raven
Janelle Shepard

Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

512/ 427-6101
Fax 512/ 427-6127

Web site:
<http://www.thecb.state.tx.us>

Dr. Robin Satterwhite, President
South Plains College
1401 College Avenue
Levelland, Texas 79336

Dear Dr. Satterwhite:

South Plains College implemented the recommendations in our prior report *A Compliance Desk Review of Formula Funding at South Plains College*, issued August 28, 2015.

Management has implemented the audit recommendations by:

- Developing a Data Governance Policy to ensure employees' access is limited to job responsibilities related to their institutional role;
- Creating two positions (Campus Security Analyst, and Director of Information Technology Operations) responsible for safeguarding authorized access to information systems and the monitoring of server and security infrastructure; and
- Implementing an audit trail log that tracks changes to the institution's student data.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings, if any, based on the audit objectives.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist (Lead Auditor)

CC:

THECB

Board Members

Commissioner's Office

Dr. Raymund Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Dr. Julie Eklund, Assistant Commissioner for Strategic Planning and Funding

South Plains College

Mr. Mike Box, Chairman, Board of Regents

Mr. Ryan Fitzgerald, Director of Institutional Research

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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Sunset Advisory Commission

Mr. Ken Levine



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512/ 427-6101
Fax 512/ 427-6127

Web site:
<http://www.thech.state.tx.us>

November 30, 2017

Dr. Robert K. Riza, President
Clarendon College
1122 College Drive
P.O. Box 968
Clarendon, Texas 79226

Dear Dr. Riza:

Clarendon College implemented the recommendations in our prior report *A Follow Up Audit of TEXAS Grant at Clarendon College*, issued March 13, 2017.

Management has implemented the audit recommendations by:

- Ensuring that the assignment of user access matches job responsibilities and complies with 34 CFR 99.31 (FERPA) requirements; and
- Establishing a formal periodic review of user access to the CAMS student information system.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings, if any, based on the audit objectives.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund Paredes, Commissioner of Higher Education

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services and CFO

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

Clarendon College

Mr. Tex Buckhaults, Executive Vice President of Academics and Student Affairs

Mr. Will Thompson, Director of Information Technology

Ms. Ashlee Estack, Chief of Staff

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

October 17, 2017

Robert W. Jenkins
CHAIR

Stuart W. Stedman
VICE CHAIR

John T. Steen, Jr.
SECRETARY OF THE BOARD

Andrias R. "Annie" Jones
STUDENT REPRESENTATIVE

Arcelia C. Acosta
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Fred Farias III, O.D.
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Janelle Shepard

Raymond A. Paredes
COMMISSIONER
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Fax 512/ 427-6127

Web site:
<http://www.thech.state.tx.us>

Dr. J. Blair Blackburn, President
East Texas Baptist University
One Tiger Drive
Marshall, Texas 75670

Dear Dr. Blackburn:

East Texas Baptist University implemented the recommendations in our prior report *A Compliance Desk Review of Tuition Equalization Grant at East Texas Baptist University*, issued July 8, 2016.

Management has implemented the audit recommendations by:

- Developing procedures to ensure compliance with TAC 22.24 (a)(5) by specifically identifying those majors that are ineligible for a TEG award; and
- Removing TEG funds awarded to students in a degree plan that leads to ordination or licensure to preach, and returning any funds to the Texas Higher Education Coordinating Board (THECB) that could not be awarded in accordance with program requirements.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings, if any, based on the audit objectives.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist (Lead Auditor)

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services and Chief Financial Officer

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

East Texas Baptist University

Mr. Nathan Flory, Financial Aid Director

Mr. Hal Cornish, Chairman of the Board

Independent Colleges and Universities in Texas

Mr. Ray Martinez, III, President

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State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine

Committee on Agency Operations

AGENDA ITEM VII-A

Consideration of approval of the updated Internal Audit Charter.

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

The International Standards for the Professional Practice of Internal Auditing are the standards that govern Coordinating Board Internal Audit, and the Texas Internal Auditing Act requires that we comply with these professional standards. The Internal Audit Charter is required by the standards and requires periodic revision to reflect changes in the standards and re-affirmation by the Board. The Internal Audit Charter is a formal document that defines the Coordinating Board Internal Audit's purpose, authority, and responsibility. The Internal Audit Charter establishes the Internal Audit's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Compared to the current IA Charter, the proposed 2018 IA Charter is reorganized, and includes expanded text for some existing elements as well as additional elements. Although, the proposed IA Charter includes many of the same elements as the current IA Charter, many elements are stated in a different way. In some cases, the phrases and words are the same, in other cases they are completely different, but cover the same concept.

Key enhancements to the proposed 2018 Internal Audit Charter include:

- The proposed 2018 IA Charter uses a model published by the Institute of Internal Auditors.
- The proposed charter incorporates any changes to auditing standards since 2013.
- New elements added to the proposed Charter are highlighted in yellow.
- Other key differences include:
 - The proposed Charter adds requirements to report conformance to the Code of Ethics and Standards to management and the board.
 - The proposed Charter adds specific authority from the Board for the audit department to fulfill its duties, as well as a duty to receive communications from the Director, Internal Audit and Compliance, and a duty to make inquiries regarding inappropriate scope or resource limitations.
 - The proposed Charter gives precedence of the IA Charter over THECB policies and procedures, with conflicts either resolved or communicated to management and the board.
 - The proposed Charter adds additional details on independence and objectivity determination and reporting.

Agenda Item VII-A
Page 2

- The proposed Charter adds a requirement that the Director, Internal Audit and Compliance periodically report any response to risk by management that may be unacceptable to the THECB.
- The proposed Charter details various typical Director, Internal audit and Compliance responsibilities.
- The proposed Charter adds a specific requirement for the IA department to maintain a quality assurance and improvement program.

The proposed Charter and the current version (2013) are included as "PROPOSED 2018" and "CURRENT 2013." Both a clean copy and a highlighted version (showing new elements) of the proposed IA Charter are included. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.

**Texas Higher Education Coordinating Board
Internal Audit Charter
January, 2013**

Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Texas Higher Education Coordinating Board. It assists the Texas Higher Education Coordinating Board in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

Role

The Internal Audit Department is established by the Board of the Texas Higher Education Coordinating Board (hereafter referred to as the Board). The Internal Audit Department's responsibilities are defined by the Board as part of their oversight role.

Professionalism

The Internal Audit Department will govern itself by adherence to the Texas Internal Auditing Act, Government Auditing Standards promulgated by the Government Accountability Office (GAO), and The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit department's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and the Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Department will adhere to Texas Higher Education Coordinating Board relevant policies and procedures and the Internal Audit Department's standard operating procedures manual.

Authority

The Internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Texas Higher Education Coordinating Board's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities. The Internal Audit Department will also have free and unrestricted access to the Board.

Organization

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Board will approve the internal audit charter, the risk-based internal audit plan, and the internal audit budget. It will also approve all decisions regarding the performance evaluation, appointment, or removal of the Chief Audit Executive as well as the Chief Audit Executive's annual compensation and salary adjustment. The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

Independence and Objectivity

The Internal Audit Department will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.

- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with the Internal Audit Department.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the Internal Audit Department's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

Internal Audit Plan

At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate.

Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken in regarding to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within 30 days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit Department will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic Assessment

The Chief Audit Executive will periodically report to the senior management and the Board on the Internal Audit Department's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues,

including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

In addition, the Chief Audit Executive will communicate to senior management and the Board on the Internal Audit Department's quality assurance and improvement program, including results of ongoing internal assessments, periodic self-assessments, and external assessments conducted at least every three years. The Chief Audit Executive must discuss with the Board the form of external assessments; the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and the need for more frequent external assessments.

Internal Audit Department Charter

Approved this _____ day of _____, 2012.

Chief Audit Executive

Chief Executive Officer

Chairman of the Board
Committee

Chairman of the Agency Operations

**Texas Higher Education Coordinating Board
Internal Audit Charter
January 2018**

A. Purpose and Mission

The purpose of Texas Higher Education Coordinating Board's (hereinafter THECB) internal audit department is to provide independent, objective assurance and consulting services designed to add value and improve THECB's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps THECB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

B. Standards for the Professional Practice of Internal Auditing

The internal audit department will govern itself by adherence to the Texas Internal Auditing Act, Government Auditing Standards promulgated by the Government Accountability Office (GAO), and the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Director, Internal Audit and Compliance will report periodically to senior management and the Board of THECB (hereinafter Board) regarding the internal audit department's conformance to the Code of Ethics and the Standards.

C. Authority

The Director, Internal Audit and Compliance will report functionally to the Board and administratively (i.e., day-to-day operations) to the chief executive officer (Commissioner of Higher Education). To establish, maintain, and assure that THECB's internal audit department has sufficient authority to fulfill its duties, the Board will:

- Approve the internal audit department's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit department's budget and resource plan.
- Receive communications from the Director, Internal Audit and Compliance on the internal audit department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Director, Internal Audit and Compliance.
- Approve the remuneration of the Director, Internal Audit and Compliance.
- Make appropriate inquiries of management and the Director, Internal Audit and Compliance to determine whether there is inappropriate scope or resource limitations.

The Director, Internal Audit and Compliance will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

The Board authorizes the internal audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of THECB, as well as other specialized services from within or outside THECB, in order to complete the engagement.

D. Independence and Objectivity

The Director, Internal Audit and Compliance will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director, Internal Audit and Compliance determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for THECB.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any THECB employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Director, Internal Audit and Compliance has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Director, Internal Audit and Compliance will confirm to the Board, at least annually, the organizational independence of the internal audit department.

The Director, Internal Audit and Compliance will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

E. Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for THECB. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of THECB's strategic objectives are appropriately identified and managed.
- The actions of THECB's officers, directors, employees, and contractors are in compliance with THECB's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact THECB.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director, Internal Audit and Compliance will report periodically to senior management and the Board regarding:

- The internal audit department's purpose, authority, and responsibility.
- The internal audit department's plan and performance relative to its plan.
- The internal audit department's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to THECB.

The Director, Internal Audit and Compliance also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

F. Responsibility

The Director, Internal Audit and Compliance has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in THECB's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact THECB are considered and communicated to senior management and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit department.
- Ensure adherence to THECB's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.
- Ensure conformance of the internal audit department with the Standards, with the following qualifications:
 - o If the internal audit department is prohibited by law or regulation from conformance with certain parts of the Standards, the Director, Internal Audit and Compliance will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - o If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Director, Internal Audit and Compliance will ensure that the internal audit department conforms with the Standards, even if the internal audit department also conforms with the more restrictive requirements of other authoritative bodies.

G. Quality Assurance and Improvement Program

The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit department and identify opportunities for improvement.

The Director, Internal Audit and Compliance will communicate to senior management and the Board on the internal audit department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside THECB.

Approval/Signatures

Director, Internal Audit and Compliance

Date

THECB Board Chair

Date

Chief Executive Officer
(Commissioner of Higher Education)

Date

**Texas Higher Education Coordinating Board
Internal Audit Charter
January 2018**

A. Purpose and Mission

The purpose of Texas Higher Education Coordinating Board's (hereinafter THECB) internal audit department is to provide independent, objective assurance and consulting services designed to add value and improve THECB's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps THECB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

B. Standards for the Professional Practice of Internal Auditing

The internal audit department will govern itself by adherence to the Texas Internal Auditing Act, Government Auditing Standards promulgated by the Government Accountability Office (GAO), and the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Director, Internal Audit and Compliance will report periodically to senior management and the Board of THECB (hereinafter Board) regarding the internal audit department's conformance to the Code of Ethics and the Standards.

C. Authority

The Director, Internal Audit and Compliance will report functionally to the Board and administratively (i.e., day-to-day operations) to the chief executive officer (Commissioner of Higher Education). To establish, maintain, and assure that THECB's internal audit department has sufficient authority to fulfill its duties, the Board will:

- Approve the internal audit department's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit department's budget and resource plan.
- Receive communications from the Director, Internal Audit and Compliance on the internal audit department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Director, Internal Audit and Compliance.
- Approve the remuneration of the Director, Internal Audit and Compliance.
- Make appropriate inquiries of management and the Director, Internal Audit and Compliance to determine whether there is inappropriate scope or resource limitations.

The Director, Internal Audit and Compliance will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

The Board authorizes the internal audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of THECB, as well as other specialized services from within or outside THECB, in order to complete the engagement.

D. Independence and Objectivity

The Director, Internal Audit and Compliance will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director, Internal Audit and Compliance determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for THECB.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any THECB employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Director, Internal Audit and Compliance has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.

- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Director, Internal Audit and Compliance will confirm to the Board, at least annually, the organizational independence of the internal audit department.

The Director, Internal Audit and Compliance will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

E. Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for THECB. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of THECB's strategic objectives are appropriately identified and managed.
- The actions of THECB's officers, directors, employees, and contractors are in compliance with THECB's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact THECB.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director, Internal Audit and Compliance will report periodically to senior management and the Board regarding:

- The internal audit department's purpose, authority, and responsibility.
- The internal audit department's plan and performance relative to its plan.
- The internal audit department's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to THECB.

The Director, Internal Audit and Compliance also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit department may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit department does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

F. Responsibility

The Director, Internal Audit and Compliance has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in THECB's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact THECB are considered and communicated to senior management and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit department.
- Ensure adherence to THECB's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.
- Ensure conformance of the internal audit department with the Standards, with the following qualifications:
 - o If the internal audit department is prohibited by law or regulation from conformance with certain parts of the Standards, the Director, Internal Audit and Compliance will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - o If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Director, Internal Audit and Compliance will ensure that the internal audit department conforms with the Standards, even if the internal audit department also conforms with the more restrictive requirements of other authoritative bodies.

G. Quality Assurance and Improvement Program

The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit department and identify opportunities for improvement.

The Director, Internal Audit and Compliance will communicate to senior management and the Board on the internal audit department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside THECB.

Approval/Signatures

Director, Internal Audit and Compliance

Date

THECB Board Chair

Date

Chief Executive Officer
(Commissioner of Higher Education)

Date

Committee on Agency Operations

AGENDA ITEM VII-B

Update on Internal Audit Reports and Activities

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

The Internal Audit Department completed four projects during the reporting period since the October 2017 Agency Operations Committee meeting. The reports include:

1. ***Final Report - A Follow Up Review of An Internal Audit of Tuition Equalization Grant Administration***
2. ***Final Report - Performance Measures and Survey Instruments for Fiscal Year 2017***
3. ***Final Report - Perkins Complaint***
4. ***Final Report - A Review of Contract Administration***

Update on Internal Audit activities

Audits In Progress	Stage of Project
A Review of Formula Funding	Planning
A Follow Up Review of College Access Loan Administration	Fieldwork
A Review of the Physician Education Loan Repayment Program	Planning

Other Internal Audit Activities

- Coordinated external audits—SAO, KPMG, etc.
- Developed a Quality Assurance and Improvement Program report for FY 17.
- Hired a new Internal Auditor with the new position made available in FY 18.

The final reports for items 1, 2 and 3 above, are attached. The final report for item 4 will be provided. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

December 6, 2017

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Stuart W. Stedman
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Fred Farias III, O.D.
Ricky A. Raven
Janelle Shepard

Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

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Dr. Raymund A. Paredes
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Paredes:

The Texas Higher Education Coordinating Board implemented the recommendations in our prior report, *An Internal Audit of Tuition Equalization Grant Administration*, issued June 22, 2016.

Management implemented all five outstanding audit recommendations by:

- Revising and improving program guidelines to align with applicable rules;
- Considering eliminating the current rule-based requirements for an annual audit of TEG awards and obtaining risk-based coverage of important compliance requirements;
- Consolidating institutional annual reporting to provide more efficient and reliable data and aligning reporting with applicable rule and statutes requirements;
- Implementing a periodic review policy to adequately limit employee folder access and implementing a routine system of access review; and
- Establishing a routine process for reviewing and confirming institution eligibility including strengthening annual review and documentation of accreditation status and Financial Aid Agreement status.

We conducted this follow-up audit in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with the Generally Accepted Government Auditing Standards (GAGAS).

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Mr. Paul Maeyaert, JD, MBA, CIA, CGAP; Auditor

CC:

THECB

Board Members

Commissioner's Office

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services

Student Financial Aid Programs

Mr. Charles Puls, Deputy Assistant Commissioner, Student Financial Aid Programs

Ms. Decha Reid, Director of Financial Aid Programs

STATUTORY DISTRIBUTION REQUIREMENT

Legislative Budget Board

Ms. Julie Ivie

Governor's Budget and Policy Division

Ms. Sarah Hicks

State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine

TEXAS HIGHER EDUCATION COORDINATING BOARD

Internal Audit and Compliance



Fiscal Year 2017 Quality Assurance and Improvement Program

Table of Contents

I.	Requirements for Improvement_____	2
II.	Internal Assessments_____	3
III.	External Assessments_____	6

Requirements for Improvement

International Standards for the Professional Practice of Internal Auditing

Standard 1300-Quality Assurance and Improvement Program (QAIP): The Chief Audit Executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. To implement this standard, the chief audit executive must consider the requirements related to its five essential components:

- Internal assessments (Standard 1311)
- External assessments (Standard 1312)
- Communication of QAIP results (Standard 1320)
- Proper use of a conformance statement (Standard 1321)
- Disclosure of nonconformance (Standard 1322)

Generally Accepted Government Auditing Standards (GAGAS)

Chapter 3-General Standards-Each audit organization performing audits in accordance with GAGAS must:

- a. Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- b. Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.

Professional Requirements and Auditor Independence

The Internal Audit and Compliance Department conducts audits in conformance with GAGAS promulgated by the Comptroller General of the United States and the Institute of Internal Auditors (IIA's) International Standards for the Professional Practice of Internal Auditing and Code of Ethics. These standards require that we be independent from any entity or person that we audit or may audit and be objective when conducting such audits. Furthermore, IIA Standards require that the Chief Audit Executive confirm to the Board, at least annually, the organizational independence of the internal audit activity. THECB Internal Audit and Compliance is organizationally independent of management and as such, remains objective when conducting audits.

Internal Assessments

Internal Audit Performance Measures—for Fiscal Year 2016 and 2017

Performance Measure/Goal	Results	
	Fiscal Year End August 31, 2016	Fiscal Year End August 31, 2017
1. Was the approved annual audit plan achieved? <i>Substantial achievement is the goal, with a target of 90% of project workload completed by year end.</i>	Full Achievement 100%	Full Achievement 100%
2. Were final audit reports sent timely to oversight bodies? <i>Substantial achievement is the goal, with a target of 100% of final reports sent to oversight bodies within 30 days of final report issuance.</i>	Full Achievement 100%	Full Achievement 100%
3. Was the Internal Audit Annual Report submitted timely? <i>This report has a November 1 statutory deadline.</i>	Full Achievement 100% Report sent 10/21/2016.	Full Achievement 100% Report sent 10/27/2017.
4. Was the Internal Audit Annual Plan prepared in a timely manner? <i>Advance preparation activity must be staged throughout the year to ensure that the final Annual Plan is ready for board approval at the July meeting.</i>	Full Achievement 100% Annual Plan was presented and approved in July, 2016.	Full Achievement 100% Annual Plan was presented and approved in July, 2017.
5. Was the Internal Audit function in general conformity with professional standards, as measured by the External Quality Assurance Review? <i>General conformance with the Institute of Internal Auditors Professional Standards is the highest rating, followed by Partial Conformance and Non-Conformance.</i>	Full Achievement 100% General conformance was expressed in the most recent External Quality Assurance Review conducted in FY 16.	Full Achievement 100% General conformance was expressed in the most recent External Quality Assurance Review conducted in FY 16.
6. Was the Internal Audit function in general conformity with professional standards, as measured by an annual internal self-assessment? <i>General conformance with the Institute of Internal Auditors Professional Standards is the highest rating, followed by Partial Conformance and Non-Conformance.</i>	Full Achievement 100% General conformance was expressed in the most recent internal self-assessment conducted in FY 16.	Full Achievement 100% General conformance was expressed in the most recent internal self-assessment conducted in FY 17.
7. Was internal audit time used efficiently and effectively? <i>Internal Audit holds itself to responsible standards for the effective and efficient use of auditor time. A benchmark standard of 75% of each auditor's time being charged to an audit, or being related to conducting audits, is the goal.</i>	Full Achievement 100% 82% of available auditor time was directly used for audits or audit-related activity.	Full Achievement 100% 88% of available auditor time was directly used for audits or audit-related activity.

Internal Audit Internal Review

Internal Audit performed an assessment of internal audit work quality to satisfy the requirements of professional auditing standards. The self-assessment of internal audit work quality was based on an evaluation of the audit project *An Internal Audit of Texas Educational Opportunity Grant (TEOG) Administration Report No. THECB IA-WP-17-192*, issued in May 2017. The review was conducted using the self-assessment tool outlined by the *State Agency Internal Audit Forum* in their Peer Review Process Manual.

Internal Audit also updated the THECB Internal Audit Policies and Procedures as part of its ongoing quality assurance and improvement program.

Compliance Monitoring Performance Measures for Fiscal Year 2017

Performance Measure/Goal	Results
	Fiscal Year End August 31, 2017
<p>8. Was the approved annual audit plan achieved?</p> <p><i>Substantial achievement is the goal, with a target of 90% of project workload completed by year end.</i></p>	<p>Partial Achievement 68%</p> <p>The state-mandated hiring freeze had a significant impact on plan accomplishment.</p>
<p>9. Were final audit reports sent timely to oversight bodies?</p> <p><i>Substantial achievement is the goal, with a target of 100% of final reports sent to oversight bodies within 30 days of final report issuance.</i></p>	<p>Full Achievement 100%</p>
<p>10. Was the Compliance Monitoring Annual Plan prepared in a timely manner?</p> <p><i>Advance preparation activity must be staged throughout the year to ensure that the final Annual Plan is ready for board approval at the July meeting.</i></p>	<p>Full Achievement 100%</p> <p>Annual Plan was presented and approved in July, 2017.</p>
<p>11. Was the Compliance Monitoring function in general conformity with professional standards, as measured by the External Quality Assurance Review?</p> <p><i>Pass with Generally Accepted Government Auditing Standards is the highest rating, followed by Pass with Deficiencies and Fail.</i></p>	<p>Full Achievement 100%</p> <p>Pass was expressed in the most recent External Quality Assurance Review conducted in FY 16.</p>
<p>12. Was Compliance monitoring audit time used efficiently and effectively?</p> <p><i>Compliance Monitoring holds itself to responsible standards for the effective and efficient use of auditor time. A benchmark standard of 75% of each auditor's time being charged to an audit, or being related to conducting audits, is the goal.</i></p>	<p>Full Achievement 100%</p> <p>79% of available auditor time was directly used for audits or audit-related activity.</p>
<p>13. How many third party inquiries were resolved through Compliance Monitoring assistance?</p> <p><i>Substantial achievement is the goal, with a target of 100% of responses to third party requests.</i></p>	<p>Full Achievement 100%</p> <p>Compliance Monitoring responded to 15 inquiries during fiscal year 2017.</p>

External Assessment

G Shemo Consulting Inc.
George J. Shemo, CPA, CGMA
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Ballston Lake, New York 12019

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Certified: NYS
Member: AICPA
NYSSCPA
IIA



REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

**TEXAS HIGHER EDUCATION
COORDINATING BOARD**

INTERNAL AUDIT and COMPLIANCE DEPARTMENT

September 28, 2016



Overall Opinions on Conformance

September 20, 2016

Under a contractual agreement with the Texas Higher Education Coordinating Board (THECB), G Shemo Consulting Inc. (GSC) has conducted an independent External Quality Assessment (EQA) of the THECB Internal Audit activity (IA activity) in the Internal Audit and Compliance Department (IACD).

The review was conducted during the period of September 12, 2016 to September 20, 2016 at the offices of THECB in Austin, Texas. This EQA was conducted as required by the Institute of Internal Auditors' (IIA) *Standard 1312*, in accordance with the approach and procedures contained in the IIA "Quality Assessment Manual" (Issued August 1, 2013). Further, this EQA included a Peer Review of IA activity conformance with applicable GAO Standards, and was conducted according to the requirements contained in GAO Standards 3.96 to 3.107. Finally, this EQA included an assessment of IA activity compliance with the requirements of the Texas Internal Auditing Act.

GSC attests that it is fully qualified to conduct this EQA of the IA activity, and that GSC is independent in all respects to THECB and the IACD. Based on the results of this EQA, GSC has reached the following conclusions:

In regard to the IIA Standards:

It is our overall opinion that, as of September 15, 2016, the THECB IA activity "Generally Conforms" to the IIA *Standards*, the Code of Ethics, and Definition of Internal Auditing. "Generally Conforms" is the top rating provided within IIA QA guidance, with the others being "Partially Conforms" and "Does Not Conform". For a detailed list of conformance to individual IIA *Standards*, please see Attachment A. The QA team has identified opportunities for further enhancing the IA activity, details of which are provided in this report.

In regard to the GAO Standards:

It is our overall opinion that the THECB IA activity's QAIP was suitably designed and complied with, for the year ended August 31, 2016, in order to provide reasonable assurance of performing and reporting in conformity with applicable GAO standards in all material respects. Accordingly, in our opinion, the appropriate Peer Review Rating for the IA activity is "Pass". This rating is the highest of the three ratings provided within GAO Standards, with the other ratings being "Pass With Deficiencies", and "Fail". For a detailed list of conformance to individual GAO *Standards*, please see Attachment B.

In regard to the Texas Internal Auditing Act:

It is our overall opinion that, as of September 15, 2016, the IA activity conforms to all the requirements contained within the Texas Internal Auditing Act.

George J Shemo, CPA, CGMA
President, G Shemo Consulting Inc.



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

December 27, 2017

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Ricky A. Raven
Janelle Shepard

Raymund A. Paredes
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Dr. Paredes:

We completed an inquiry regarding an administrative complaint in the Academic Quality and Workforce (AQW) Division. The complaint alleged that a member of AQW management was charging more time than actually spent working on the federal Perkins grant. The complainant further alleged that documentation requirements for time charged to the Perkins grant were inconsistent.

The complaint was substantiated, in that a Deputy Assistant Commissioner charged, for the 11 month period from September 2016 through July 2017, roughly one third of his salary or \$40,000 in error to the Perkins grant¹. The reason for the overcharge was that the Deputy Assistant Commissioner's "home code" in CAPPSSHR, the agency's time reporting system, was set to Perkins and not to AQW Administration like most of the staff in the division. CAPPSSHR is set up to charge all time entered to an employee's home code, unless separate entries are made and explicitly coded to an exception code. The Deputy Assistant Commissioner made separate entries during the eleven month period, but did not explicitly assign those entries to an exception code. Therefore, CAPPSSHR processed those entries as if they were made to the home code and thereby negated the Deputy Assistant Commissioner's attempt to segregate time charged to Perkins from time charged to AQW Administration. All of the Deputy Assistant Commissioner's timesheets for the eleven month period were approved by the Assistant Commissioner for AQW under the mistaken interpretation that the time he was approving was adequately separated between AQW and Perkins programs.

The overcharging to the Perkins program was first detected by the Assistant Commissioner for AQW. He asked for a special report to be run, showing the percentage and dollar amounts of time charged to the Perkins program. Aside from this ad hoc report requested by the AQW Division, there is no routine reporting from CAPPSSHR to program managers, summarizing time charged to their areas of responsibility.

Regarding documentation inconsistencies alleged in the complaint, differences were noted in the level of detail being entered on CAPPSSHR timesheets for time charged to the Perkins grant. For one month of timesheets reviewed in fiscal year 2017, five staff entered supplemental comments regarding the nature of work performed while four staff did not enter supplemental comments. 2 CFR Part 200.430 (i) Standards for Documentation of Personnel Expenses states, "(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed... (2) For records which meet the standards required in paragraph (i)(1) of this section, the non-Federal entity will not be required to provide additional support or documentation for the

¹ Accounting entries were made on August 31, 2017, to correct the error and accurately reflect time charged to the Perkins grant.

work performed, other than... (3) records indicating the total number of hours worked each day...."

The following recommendations are made, based on the issues noted above.

Recommendation 1

Review CAPPSSHR home code assignments across the agency to ensure all home codes are correct and understood. Provide enhanced reports on a routine basis to summarize hours and percentages charged to programs under a manager's purview.

Management Response

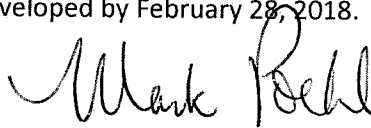
Management agrees with the recommendation. After the start of each fiscal year, Payroll will provide a report of all agency employees with their name and home program/PCA assignment to all Deputy Commissioners, General Counsel and Assistant Commissioners for their review. This will enhance visibility to management as to where their staff is actually being charged for payroll purposes and then submit an action in the Personnel Action and Logistics (PAL) system for any corrections needed. Payroll will provide monthly an exception report listing any employee who transferred some, or all, of their time to another program/PCA during the previous month. Initial reports were provided in November, 2017, and will continue thereafter.

Recommendation 2

Review CAPPSSHR time report training, and develop procedures to promote standardization and minimum documentation necessary to satisfy federal regulations.

Management Response

Management agrees with the recommendation. The AQW division has consulted with KPMG and Internal Audit regarding the reporting of time in CAPPSS, and an appropriate level of federal time documentation captured by CAPPSS. Based on their recommendation, the AQW division has standardized the reporting of time across the division in a fashion that will reflect consistent reporting, minimize the level of documentation required, and comply with all applicable laws and rules. This information will be shared across the agency, to ensure that federal time is documented in a standardized way. This training will be begin with an initial discussion at the Cross-Divisional meeting on January 17, 2018. Agency policy will be developed by February 28, 2018.



Mark Poehl
Director, Internal Audit and Compliance

Cc: David Gardner
Linda Battles
Ken Martin
Bill Franz
Rex Peebles

Committee on Agency Operations

AGENDA ITEM VIII

Executive Session

A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to discuss and receive its attorney's advice on legal matters relating to Agenda Item VII-B(4).